

# **City of Center Line, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# City of Center Line, Michigan

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# City of Center Line, Michigan

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## Independent Auditor's Report

To the City Council  
City of Center Line, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Center Line, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedule, and retirement system schedules of funding progress and employer contributions identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Center Line, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Center Line, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

November 19, 2008

# City of Center Line, Michigan

## Management's Discussion and Analysis

The City of Center Line, Michigan's (the "City") management's discussion and analysis (MD&A) is designed to provide an objective and easy-to-read analysis of the City's financial activities based on current information and facts. The MD&A is intended to serve as an introduction to the City's basic financial statements. Specifically, this information is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues.

This is the fifth year the City has presented its financial statements in accordance with the reporting model required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). This reporting model significantly changes not only the presentation of financial data, but also the manner in which the information is recorded.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

### Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are divided into three categories:

- **Government Activities** - Most of the City's basic services are included here such as public safety, public works, recreation and library, and general administration.
- **Business-type Activities** - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system and its solid waste system are included here.
- **Component Units** - The City includes one other entity in its report, the Downtown Development Authority (DDA). Although legally separate, this "component unit" is important because the City is financially accountable for it.

# City of Center Line, Michigan

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## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in reconciliation statements that explains the relationship (or differences) between them.
- **Proprietary Funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, offer short- and long-term financial information. In fact, the City's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** - Fiduciary funds provide information about resources held for the benefit of parties outside the government, such as the retirement plan for the City's public safety employees in which the City acts solely as a trustee or agent. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

# **City of Center Line, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Financial Highlights**

The following represents the most significant financial highlights for the year ended June 30, 2008:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$3,000 from the prior year.
- Total net assets related to the City's governmental activities are \$4,950,403, with \$2,579,033 of that amount invested in capital assets, net of related debt.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$812,463, or 9.4 percent of total General Fund expenditures and transfers out.

### **Financial Analysis of the City as a Whole**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Center Line, Michigan, assets of the governmental activities exceeded liabilities by \$4,950,403 at the close of the fiscal year ended June 30, 2008. The largest portion of the City's net assets (52.1 percent) reflects its investment in capital assets. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City's governmental activities totaled \$1,157,734 at June 30, 2008. These net assets have limits on their use that are externally imposed by restrictions such as enabling legislation or bond covenants. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, or debt service activities. The remaining unrestricted net assets may be used to meet the City's ongoing operations.

The designated fund balance in the General Fund at June 30, 2008 totals \$812,463 and is 15.6 percent greater than the 2007 amount of \$702,584. This difference is due to income from operations of approximately \$62,500 and a decrease in reserved fund balance of approximately \$47,400. The net assets invested in capital assets for the governmental activities as a percentage of total net assets for 2008 (52.1 percent) is greater than the same amount in 2007. The City's restricted net assets for the governmental activities have decreased slightly from \$1,290,866 in 2007 to \$1,157,734 this year.



# City of Center Line, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows, in a condensed format, the net assets of the City as of June 30, 2008 and 2007:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current and other assets	\$ 3,181,754	\$ 3,270,634	\$ 600,749	\$ 1,033,255	\$ 3,782,503	\$ 4,303,889
Noncurrent assets:						
Restricted assets	-	-	216,601	277,336	216,601	277,336
Capital assets	4,369,894	4,550,207	12,675,468	12,582,785	17,045,362	17,132,992
Total assets	7,551,648	7,820,841	13,492,818	13,893,376	21,044,466	21,714,217
<b>Liabilities</b>						
Current liabilities	992,088	964,237	497,398	678,292	1,489,486	1,642,529
Long-term liabilities	1,609,157	1,867,422	8,695,332	9,006,954	10,304,489	10,874,376
Total liabilities	2,601,245	2,831,659	9,192,730	9,685,246	11,793,975	12,516,905
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	2,579,033	2,540,370	3,980,136	3,575,831	6,559,169	6,116,201
Restricted	1,157,734	1,290,866	216,601	277,336	1,374,335	1,568,202
Unrestricted	1,213,636	1,157,946	103,351	354,963	1,316,987	1,512,909
Total net assets	<u>\$ 4,950,403</u>	<u>\$ 4,989,182</u>	<u>\$ 4,300,088</u>	<u>\$ 4,208,130</u>	<u>\$ 9,250,491</u>	<u>\$ 9,197,312</u>

As shown in Table 2 (changes in net assets), the City's total revenues from governmental activities were approximately \$7,936,000 for the current year, of which approximately 75.9 percent was obtained from property taxes. Fees charged for services accounted for another 10 percent of the total, with the balance of the City's revenues primarily being derived from state and federal sources. The total cost of all programs and services of governmental activities at June 30, 2008 was approximately \$7,974,000. City expenses cover a wide range of services. For the current fiscal year, about 67.4 percent of the City's expenses are related to public safety and public works.

Net assets decreased by \$38,779 for the City of Center Line, Michigan's governmental activities while net assets for business-type activities increased by \$91,958 during the year.

# City of Center Line, Michigan

## Management's Discussion and Analysis (Continued)

The following analysis highlights the changes in net assets for the years ended June 30, 2008 and 2007:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 796,959	\$ 813,257	\$ 2,375,951	\$ 2,111,096	\$ 3,172,910	\$ 2,924,353
Operating grants and contributions	579,491	603,819	-	-	579,491	603,819
Capital grants and contributions	86,756	88,513	-	-	86,756	88,513
General revenues:						
Property taxes	6,028,915	6,159,702	-	-	6,028,915	6,159,702
State-shared revenues	998,627	1,001,323	-	-	998,627	1,001,323
Cable franchise fees	127,618	88,508	-	-	127,618	88,508
Investment earnings	165,774	128,892	30,195	64,250	195,969	193,142
Miscellaneous	99,391	45,120	-	-	99,391	45,120
Loss from joint venture	(20,938)	(3,056)	-	-	(20,938)	(3,056)
Transfers	(927,046)	(849,065)	927,046	849,065	-	-
Total revenue	7,935,547	8,077,013	3,333,192	3,024,411	11,268,739	11,101,424
<b>Program Expenses</b>						
General government	1,813,174	1,785,361	-	-	1,813,174	1,785,361
Public safety	3,831,197	3,821,420	-	-	3,831,197	3,821,420
Public works	1,546,382	1,463,503	-	-	1,546,382	1,463,503
Recreation and culture	715,316	677,994	-	-	715,316	677,994
Interest on long-term debt	68,257	69,744	-	-	68,257	69,744
Water and sewer	-	-	2,928,603	3,377,769	2,928,603	3,377,769
Solid waste disposal	-	-	312,631	272,747	312,631	272,747
Total program expenses	7,974,326	7,818,022	3,241,234	3,650,516	11,215,560	11,468,538
<b>Change in Net Assets</b>	<b>\$ (38,779)</b>	<b>\$ 258,991</b>	<b>\$ 91,958</b>	<b>\$ (626,105)</b>	<b>\$ 53,179</b>	<b>\$ (367,114)</b>

## Financial Analysis of the City's Funds

The fund financial statements provide detailed information on the most significant governmental funds - not the City as a whole. The City of Center Line, Michigan uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as to show accountability for certain activities. The City's major governmental funds for fiscal year 2007-2008 include the General Fund and the Water and Sewer Fund.

The General Fund is the main operating fund of the City and accounts for most of the City's governmental services, the most significant of which includes public safety. Expenditures for public safety services incurred during the year totaled approximately \$3.8 million. The General Fund is primarily supported by property taxes (70.3 percent) and intergovernmental revenues (13.2 percent), which consist primarily of state-shared revenues. A measure of the General Fund's liquidity can be made by comparing unreserved fund balance and total fund balance to total fund expenditures. At year end, unreserved fund balance and total fund balance were 9.4 percent and 18.9 percent, respectively, of total General Fund expenditures including transfers out.

# City of Center Line, Michigan

## Management's Discussion and Analysis (Continued)

For the 2005 and 2006 tax years (the City's 2006 and 2007 fiscal years), errors were made in calculating the debt levy resulting in tax collections exceeding debt service requirements by approximately \$236,000 and \$350,000, respectively. These amounts are legally restricted for the retirement of unlimited tax general obligation bonds and have been reported as reserved fund balance in the General Fund.

**Proprietary Funds** - In addition to governmental funds, the City uses proprietary funds, which provide similar types of information as that contained in the government-wide financial statements, but in more detail. The Water and Sewer Fund and Solid Waste Disposal Fund make up the City's proprietary funds. Unrestricted net assets of the proprietary funds were approximately \$103,000 at year end, while the portion attributable to the Water and Sewer Fund is a deficit of approximately \$194,000.

For fiscal year 2007-2008, a combined water/sewer rate increase of approximately 4.73 percent was approved for the Water and Sewer Fund, resulting in the increase in charges for services. The rate increases were necessary due to increased charges imposed by the Detroit water and sewerage department and increased City operating costs for water/sewer maintenance.

The net operating loss in Water and Sewer Fund of approximately \$717,000 is primarily due to rates charged to customers not being set to recover costs paid for operations, a significant refund paid to a customer, and required repairs and maintenance.

The Solid Waste Disposal Fund experienced no change in fees during the year. This was directly attributed to a new contract with Allied Waste and a new contract into which the member communities entered for the South Macomb Disposal Authority transfer station.

### General Fund Budgetary Highlights

The City amended its budget to account for events and changes that occurred during the course of the year.

Differences in expenditures between the original budget and the amended budget were comprised of the following:

- Increase in appropriations to prevent budget overruns
- Health insurance increased costs
- Increase in costs of other benefits
- Salary adjustments relative to union contract negotiations

# **City of Center Line, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Capital Assets**

At June 30, 2008, the City had \$6,559,169 invested in a wide range of capital assets, including land, buildings, police and fire equipment, and the water and sewer utility system.

Significant capital asset activity during the year included the purchase of new water meters in the business-type activities totaling approximately \$360,000, which were funded through installment purchase agreements.

### **Long-term Debt**

The City's total indebtedness as of June 30, 2008 is approximately \$10.5 million, excluding compensated absences. Of this amount, approximately \$9.5 million is for general obligation bonds. In addition, the City has installment purchase agreements for a 2005 street sweeper for \$22,342, the 2006 back hoe and wheel loader in the amount of \$80,390, the 2006 aerial bucket truck in the amount of \$101,354, the 2005 sewer vacuator in the amount of \$40,533, the 2006 bobcat excavator in the amount of \$41,317, the 2007 SLC meters in the amount of \$265,531, the 2007 UIS Meters in the amount of \$24,458, revenue bonds in the amount of \$95,000, and special assessment bonds in the amount of \$340,000 for the Kramer Homes sewer improvement project.

The City of Center Line, Michigan maintains an "A3" rating from Moody's Investors Services on its unlimited tax debt and a "BBB+" rating from Standard & Poor's.

### **Economic Factors and Next Year's Budgets and Rates**

The development of the 2008-2009 budget was impacted by several factors. On the revenue side, the slow rebounding state economy is anticipated to save us from additional state revenue-sharing cuts, while investment income is also expected to remain constant. Taxable value is expected to remain constant due to the downturn in the real estate market.

On the expenditures side, costs were expected to continue to escalate for health care and pension costs.

Next year's General Fund budget is expected to use approximately \$360,000 of unreserved fund balance in order to meet its needs. Total fund balance in the General Fund at the end of the next fiscal year is expected to drop below 10 percent of budgeted expenditures, which is the minimum established funding level goal set by the City Council, as more will be needed to balance the budget once agreements are reached on the four union contracts that expired June 30, 2006. The City has also attempted to control the escalation of expenses by postponing or eliminating certain nonessential capital outlay requests and by freezing the filling of vacant positions.

# **City of Center Line, Michigan**

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## **Management's Discussion and Analysis (Continued)**

The 2008-2009 tax rate for operating purposes remains the same as the previous year (14.663 mills). The debt millage rate has been decreased by 2.4025 mills to 1.5952 mills due to the 2004 bond refinancing, while the police and fire pension millage has been increased 1.0131 mills to 4.9747 due to increases in benefits for public safety employees as a result of the union negotiating process. Overall, next year's tax rate decrease is 1.3894 mills, from 22.6223 mills to 21.2329 mills.

### **Request for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the treasurer/finance director at the City of Center Line, 7070 E. Ten Mile Rd., Center Line, MI 48015.

# City of Center Line, Michigan

## Statement of Net Assets June 30, 2008

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 1,956,919	\$ 232,087	\$ 2,189,006	\$ 578,923
Receivables - Net:				
Property taxes	58,968	-	58,968	-
Customers	-	591,492	591,492	-
Rehabilitation loans	39,377	-	39,377	-
Special assessments	347,025	-	347,025	-
Interest and other	39,339	16,827	56,166	-
State of Michigan	235,153	-	235,153	-
Internal balances	239,657	(239,657)	-	-
Investment in joint venture (Note 12)	44,295	-	44,295	-
Prepaid expenses	221,021	-	221,021	-
Restricted assets (Notes 8)	-	216,601	216,601	-
Capital assets - Net (Note 4):				
Assets not depreciated	1,445,365	-	1,445,365	-
Assets being depreciated	2,924,529	12,675,468	15,599,997	-
Total assets	7,551,648	13,492,818	21,044,466	578,923
<b>Liabilities</b>				
Accounts payable	222,628	402,200	624,828	-
Accrued and other liabilities	278,844	95,198	374,042	-
Property taxes collected in advance and refundable deposits	164,998	-	164,998	-
Deferred revenue (Note 6)	58,968	-	58,968	-
Noncurrent liabilities (Note 7):				
Due within one year	266,650	676,187	942,837	-
Due in more than one year	1,609,157	8,019,145	9,628,302	-
Total liabilities	2,601,245	9,192,730	11,793,975	-
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	2,579,033	3,980,136	6,559,169	-
Restricted:				
Streets	170,230	-	170,230	-
Capital projects	45,299	-	45,299	-
Special assessment debt service	347,025	-	347,025	-
General obligation debt service	595,180	-	595,180	-
Revenue bond ordinances	-	216,601	216,601	-
Unrestricted	1,213,636	103,351	1,316,987	578,923
Total net assets	\$ 4,950,403	\$ 4,300,088	\$ 9,250,491	\$ 578,923

# City of Center Line, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,813,174	\$ 579,284	\$ 65,444	\$ -
Public safety	3,831,197	151,959	61,326	-
Public works	1,546,382	6,093	437,512	86,756
Recreation and culture	715,316	59,623	15,209	-
Interest on long-term debt	68,257	-	-	-
Total governmental activities	7,974,326	796,959	579,491	86,756
Business-type activities:				
Water and sewer	2,928,603	2,150,173	-	-
Solid waste disposal	312,631	225,778	-	-
Total business-type activities	3,241,234	2,375,951	-	-
Total primary government	<u>\$ 11,215,560</u>	<u>\$ 3,172,910</u>	<u>\$ 579,491</u>	<u>\$ 86,756</u>
Component unit - Downtown Development Authority	<u>\$ 24,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Cable franchise fees				
Investment earnings				
Miscellaneous				
Loss from joint venture				
Transfers				
Total general revenues and transfers				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (1,168,446)	\$ -	\$ (1,168,446)	\$ -
(3,617,912)	-	(3,617,912)	-
(1,016,021)	-	(1,016,021)	-
(640,484)	-	(640,484)	-
(68,257)	-	(68,257)	-
(6,511,120)	-	(6,511,120)	-
-	(778,430)	(778,430)	-
-	(86,853)	(86,853)	-
-	(865,283)	(865,283)	-
(6,511,120)	(865,283)	(7,376,403)	-
-	-	-	(24,050)
6,028,915	-	6,028,915	44,569
998,627	-	998,627	-
127,618	-	127,618	-
165,774	30,195	195,969	20,609
99,391	-	99,391	-
(20,938)	-	(20,938)	-
(927,046)	927,046	-	-
6,472,341	957,241	7,429,582	65,178
(38,779)	91,958	53,179	41,128
4,989,182	4,208,130	9,197,312	537,795
<b>\$ 4,950,403</b>	<b>\$ 4,300,088</b>	<b>\$ 9,250,491</b>	<b>\$ 578,923</b>



# City of Center Line, Michigan

## Governmental Funds Balance Sheet June 30, 2008

	Major Fund - General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 1,489,385	\$ 467,534	\$ 1,956,919
Receivables - Net:			
Property taxes	58,968	-	58,968
Rehabilitation loans	-	39,377	39,377
Special assessments	347,025	-	347,025
Interest and other	39,339	-	39,339
State of Michigan	199,187	35,966	235,153
Prepaid expenses	221,021	-	221,021
Due from other funds (Note 5)	306,124	-	306,124
Total assets	<u><b>\$ 2,661,049</b></u>	<u><b>\$ 542,877</b></u>	<u><b>\$ 3,203,926</b></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 204,964	\$ 25,786	\$ 230,750
Accrued and other liabilities	256,430	3,141	259,571
Property taxes collected in advance and refundable deposits	164,998	-	164,998
Due to other funds	-	66,467	66,467
Deferred revenue (Note 6)	405,993	39,377	445,370
Total liabilities	1,032,385	134,771	1,167,156
<b>Fund Balances</b>			
Reserved for prepaid expenses	221,021	-	221,021
Reserved for general obligation debt service (Note 13)	595,180	-	595,180
Unreserved - Designated (Note 13)	812,463	-	812,463
Unreserved, reported in:			
Special Revenue Funds	-	362,807	362,807
Capital Projects Funds	-	45,299	45,299
Total fund balances	<u>1,628,664</u>	<u>408,106</u>	<u>2,036,770</u>
Total liabilities and fund balances	<u><b>\$ 2,661,049</b></u>	<u><b>\$ 542,877</b></u>	<u><b>\$ 3,203,926</b></u>

# City of Center Line, Michigan

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## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

<b>Total Fund Balances of Governmental Funds</b>	\$ 2,036,770
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	4,369,894
--	-----------

Investment in joint venture is not included as an asset in the governmental funds	44,295
---	--------

Receivables are expected to be collected over several years and are not available to pay for current year expenditures:	
Rehabilitation loans	39,377
Special assessments	347,025

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Notes and bonds payable	(1,790,861)
Compensated absences	(84,946)

Accrued interest payable is not included as a liability in the governmental funds	(11,151)
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<b>Net Assets of Governmental Activities</b>	<b><u>\$ 4,950,403</u></b>
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# City of Center Line, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	Major Fund - General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 6,115,672	\$ -	\$ 6,115,672
Intergovernmental revenue:			
Federal sources	126,770	-	126,770
State sources	1,023,764	437,512	1,461,276
Special assessments	86,756	-	86,756
Fees and charges	558,510	-	558,510
Licenses and permits	234,143	-	234,143
Interest income	155,107	10,667	165,774
Other	398,943	-	398,943
Total revenue	8,699,665	448,179	9,147,844
<b>Expenditures</b>			
General government:			
Legislative	22,017	-	22,017
District Court	457,816	-	457,816
City assessor	84,566	-	84,566
City manager - Clerk	596,246	-	596,246
City treasurer	295,416	-	295,416
Other general government	433,314	-	433,314
Administration	-	70,261	70,261
Public safety:			
Public safety department	3,628,469	-	3,628,469
Protective inspection	125,830	-	125,830
Public works - DPW and street maintenance	1,080,329	421,302	1,501,631
Recreation and culture:			
Recreation	398,744	-	398,744
Library	300,524	-	300,524
Debt service	286,863	-	286,863
Construction and capital outlay	-	92	92
Total expenditures	7,710,134	491,655	8,201,789
<b>Excess of Revenue Over (Under) Expenditures</b>	989,531	(43,476)	946,055
<b>Other Financing (Uses) Sources</b>			
Transfers in	-	154,000	154,000
Transfers out	(927,046)	(154,000)	(1,081,046)
Total other financing uses	(927,046)	-	(927,046)
<b>Net Changes in Fund Balances</b>	62,485	(43,476)	19,009
<b>Fund Balances - Beginning of year</b>	1,566,179	451,582	2,017,761
<b>Fund Balances - End of year</b>	<b>\$ 1,628,664</b>	<b>\$ 408,106</b>	<b>\$ 2,036,770</b>

# City of Center Line, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

**Net Change in Fund Balances of Governmental Funds** \$ 19,009

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	\$ 115,209	
Depreciation expense	<u>(295,522)</u>	(180,313)

For special assessments and other long-term receivables, revenues are recorded in the statement of activities when the assessment is set; these amounts are not reported in the funds until collected or collectible within 60 days of year end (86,757)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 218,976

Increase in accrued interest payable is recorded when incurred in the statement of activities (370)

Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities 11,614

Loss from a joint venture reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds (20,938)

**Change in Net Assets of Governmental Activities** **\$ (38,779)**

# City of Center Line, Michigan

## Proprietary Funds Enterprise Funds Statement of Net Assets June 30, 2008

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ -	\$ 232,087	\$ 232,087
Receivables:			
Customers	501,234	90,258	591,492
Interest and other	16,827	-	16,827
Total current assets	518,061	322,345	840,406
Long-term assets:			
Restricted assets (Note 8)	216,601	-	216,601
Capital assets being depreciated - Net (Note 4)	12,675,468	-	12,675,468
Total long-term assets	12,892,069	-	12,892,069
Total assets	13,410,130	322,345	13,732,475
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	377,257	24,943	402,200
Accrued liabilities	95,198	-	95,198
Due to other funds (Note 5)	239,657	-	239,657
Current portion of long-term debt (Note 7)	676,187	-	676,187
Total current liabilities	1,388,299	24,943	1,413,242
Long-term liabilities - Long-term debt - Net of current portion (Note 7)	8,019,145	-	8,019,145
Total liabilities	9,407,444	24,943	9,432,387
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	3,980,136	-	3,980,136
Restricted - Revenue bond ordinances	216,601	-	216,601
Unrestricted	(194,051)	297,402	103,351
Total net assets	\$ 4,002,686	\$ 297,402	\$ 4,300,088

# City of Center Line, Michigan

## Proprietary Funds Enterprise Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
<b>Operating Revenue</b>			
Water sales and sewage disposal revenue	\$ 1,817,891	\$ -	\$ 1,817,891
Solid waste disposal revenue	-	225,778	225,778
Total operating revenue	1,817,891	225,778	2,043,669
<b>Operating Expenses</b>			
Cost of water and sewage disposal	1,125,316	-	1,125,316
Cost of solid waste disposal	-	299,264	299,264
Salaries and fringe benefits	362,952	-	362,952
Utilities	31,396	-	31,396
Depreciation	269,804	-	269,804
Repairs and maintenance	452,512	-	452,512
Insurance	3,901	-	3,901
Office supplies	3,325	361	3,686
Professional services	54,430	9,006	63,436
Operating supplies	19,251	-	19,251
Rent	35,500	4,000	39,500
Vehicle expenses	13,195	-	13,195
Other	163,688	-	163,688
Total operating expenses	2,535,270	312,631	2,847,901
<b>Operating Loss</b>	(717,379)	(86,853)	(804,232)
<b>Nonoperating Revenue (Expense)</b>			
Interest income	18,483	11,712	30,195
State grant revenue	332,282	-	332,282
Interest expense	(393,333)	-	(393,333)
Total nonoperating revenue (expense)	(42,568)	11,712	(30,856)
<b>Loss - Before transfers</b>	(759,947)	(75,141)	(835,088)
<b>Transfer In</b>	927,046	-	927,046
<b>Increase (Decrease) in Net Assets</b>	167,099	(75,141)	91,958
<b>Net Assets - Beginning of year</b>	3,835,587	372,543	4,208,130
<b>Net Assets - End of year</b>	<u>\$ 4,002,686</u>	<u>\$ 297,402</u>	<u>\$ 4,300,088</u>

# City of Center Line, Michigan

## Proprietary Funds Enterprise Funds Statement of Cash Flows Year Ended June 30, 2008

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 1,943,039	\$ 217,199	\$ 2,160,238
Payments to suppliers for water supply, sewage disposal, and solid waste disposal	(1,296,713)	(291,825)	(1,588,538)
Payments to other suppliers and employees	(917,430)	(13,367)	(930,797)
Net cash used in operating activities	(271,104)	(87,993)	(359,097)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Transfers from other funds	927,046	-	927,046
Purchase of capital assets	(362,487)	-	(362,487)
Proceeds from debt issuance	362,487	-	362,487
Cash received from state grant	332,282	-	332,282
Principal and interest paid on long-term debt	(1,067,442)	-	(1,067,442)
Net cash provided by capital and related financing activities	191,886	-	191,886
<b>Cash Flows from Investing Activities - Interest received on investments</b>	18,483	11,712	30,195
<b>Net Decrease in Cash and Cash Equivalents</b>	(60,735)	(76,281)	(137,016)
<b>Cash and Cash Equivalents - Beginning of year</b>	277,336	308,368	585,704
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 216,601</u>	<u>\$ 232,087</u>	<u>\$ 448,688</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ -	\$ 232,087	\$ 232,087
Restricted assets	216,601	-	216,601
Total	<u>\$ 216,601</u>	<u>\$ 232,087</u>	<u>\$ 448,688</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (717,379)	\$ (86,853)	\$ (804,232)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	269,804	-	269,804
Changes in assets and liabilities:			
Receivables	125,148	(8,579)	116,569
Due to other funds	239,657	-	239,657
Accounts payable and accrued liabilities	(188,334)	7,439	(180,895)
Net cash used in operating activities	<u>\$ (271,104)</u>	<u>\$ (87,993)</u>	<u>\$ (359,097)</u>

There were no significant noncash transactions during the year ended June 30, 2008.

# City of Center Line, Michigan

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## **Fiduciary Funds Statement of Net Assets Pension and Other Employee Benefit Trust Funds June 30, 2008**

### **Assets**

Cash (Note 3)	\$ 408,781
Investments (Note 3):	
Common and preferred stocks	8,955,233
Corporate bonds and notes	977,157
U.S. Treasury securities	183,833
Federal agency securities	2,086,598
Interlocal agreement investment pools	52,767
Accrued interest receivable	<u>31,421</u>
Total assets	<u>12,695,790</u>

### **Net Assets**

Held in trust for pension benefits	12,643,023
Held in trust for retiree healthcare benefits	<u>52,767</u>
Total net assets	<u><u>\$ 12,695,790</u></u>



# City of Center Line, Michigan

## **Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2008**

### **Additions**

#### Investment income:

Interest and dividends	\$ 316,727
Net depreciation in fair value of investments	(502,700)
Less investment expenses	<u>(119,640)</u>

Net investment income (305,613)

#### Contributions:

Employer	364,782
Employees	<u>117,193</u>

Total contributions 481,975

Total additions 176,362

### **Deductions**

Benefit payments	779,598
Administrative expenses	<u>196</u>

Total deductions 779,794

**Net Decrease** (603,432)

### **Net Assets Held in Trust for Pension and Other Employee Benefits**

Beginning of year 13,299,222

End of year \$ 12,695,790

# City of Center Line, Michigan

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## Notes to Financial Statements June 30, 2008

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Center Line, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected five-member council. The accompanying financial statements present the City and its discretely presented component unit, an entity for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City, although the City has the ability to impose its will over the entities.

**Discretely Presented Component Unit** - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Downtown Development Authority's governing body, consisting of 11 individuals, is selected by the City Council. In addition, the Downtown Development Authority's budget is subject to approval by the City Council. The DDA does not issue separate financial statements.

The City has an Economic Development Corporation and a Building Authority; however, there was no financial activity during the year.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds and major Enterprise Fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major Enterprise Fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund type:

**Pension and Other Employee Benefit Trust Funds** - The Pension and Other Employee Benefit Trust Funds account for the accumulation of resources for the payment of pension and retiree healthcare benefits to employees of the City.

#### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Customer, tax, and other receivables are stated at invoice amounts, net of allowance for doubtful accounts. An allowance for doubtful customer receivable accounts is established based on historical loss experience and management's estimate. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Prepaid Expenses** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

**Property Tax Revenue** - Properties are assessed as of December 31 and the related taxes become a lien at that time. These taxes are billed on July 1 of the following year and are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2007 taxable valuation (real and personal property) of the City totaled approximately \$252,400,000, on which ad valorem taxes levied consisted of 14.663 mills for the City's operating purposes, 3.9977 mills for debt service purposes, and 3.9616 mills for the public safety retirement benefits. The ad valorem taxes generated approximately \$3,700,000 for general operations, \$1,009,000 for debt retirement, and \$1,000,000 for public safety pension benefits. These amounts are recorded in the General Fund as property tax revenue. Property tax revenue in the General Fund also includes industrial facilities taxes and similar types of receipts.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, utility systems, etc.), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Utility system	70 years
Land improvements	20 years
Buildings and improvements	50 years
Machinery and equipment	5 to 20 years

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only when due for payment (generally for employee terminations as of year end).

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. The deferred amount from debt refundings is amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable deferred amount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - The annual budget is prepared by the City administration and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end, and encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered spent when goods are received or services are rendered. During the year, the budget was amended in a legally permissible manner.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

The city manager presents the preliminary budget to the Council in April and the final budget is legally adopted in June to commence on the first day of July. During the year, there were no expenditures that exceeded budgeted amounts.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

**Fund Deficits** - The Water and Sewer Enterprise Fund has a deficit in its unrestricted net assets as of June 30, 2008. The City intends to eliminate the deficit through increases in operating charges to customers and reduction of expenses.

**State Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2008 is as follows:

Cumulative shortfall - July 1, 2007		\$ (548,734)
Building permit revenue		95,886
Related expenditures:		
Direct costs	\$ 125,830	
Estimated indirect costs	<u>12,583</u>	
Total construction code expenditures		<u>138,413</u>
Excess of expenditures over revenue		<u>(42,527)</u>
Cumulative shortfall - June 30, 2008		<u><u>\$ (591,261)</u></u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with state law and management believes that the City's deposits and investments are in accordance with statutory authority.

The Police and Fire Retirement System Fund, Police and Fire Retiree Health Care Fund, and General Retiree Health Care Fund are also authorized by Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, certain real estate investments, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the board has authorized investments in accordance with Public Act 196 of 1997. The City's deposits are in accordance with statutory requirements.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$1,889,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.



### Note 3 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (years)
Police and Fire Retirement System:		
U.S. Treasury securities	\$ 183,833	9.36
Federal agency securities	2,086,598	24.21
Corporate bonds	977,157	7.90

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 425,194	AAA / VI +	Fitch
Bank investment pool	444,113	Not rated	N/A
Bank investment pool (Pension Fund)	52,767	AAA / VI +	Fitch
Federal agency securities	2,024,197	AAA	S&P
Corporate bonds	977,157	AAA to A-	S&P

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 1,445,365	\$ -	\$ -	\$ 1,445,365
Capital assets being depreciated:				
Land improvements	654,546	-	-	654,546
Buildings and improvements	2,335,854	32,532	-	2,368,386
Machinery and equipment	4,441,698	82,677	-	4,524,375
Subtotal	7,432,098	115,209	-	7,547,307
Accumulated depreciation:				
Land improvements	398,165	23,101	-	421,266
Buildings and improvements	901,350	47,127	-	948,477
Machinery and equipment	3,027,741	225,294	-	3,253,035
Subtotal	4,327,256	295,522	-	4,622,778
Net capital assets being depreciated	3,104,842	(180,313)	-	2,924,529
Net capital assets	<u>\$ 4,550,207</u>	<u>\$ (180,313)</u>	<u>\$ -</u>	<u>\$ 4,369,894</u>
<b>Business-type Activities</b>				
Capital assets being depreciated:				
Utility system	\$ 14,309,128	\$ -	\$ -	\$ 14,309,128
Buildings and improvements	1,502,990	-	-	1,502,990
Machinery and equipment	911,900	362,487	-	1,274,387
Subtotal	16,724,018	362,487	-	17,086,505
Accumulated depreciation:				
Utility system	2,944,019	204,113	-	3,148,132
Buildings and improvements	661,926	25,567	-	687,493
Machinery and equipment	535,288	40,124	-	575,412
Subtotal	4,141,233	269,804	-	4,411,037
Net capital assets	<u>\$ 12,582,785</u>	<u>\$ 92,683</u>	<u>\$ -</u>	<u>\$ 12,675,468</u>

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the governmental activities as follows:

General government	\$ 45,566
Public safety	118,573
Public works	82,780
Recreation and culture	<u>48,603</u>
Total governmental activities	<u>\$ 295,522</u>

### Note 5 - Interfund Receivables, Payable, and Transfers

The composition of interfund balances is as follows

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/ from other funds:		
General Fund	Water and Sewer Fund	\$ 239,657
General Fund	Local Streets Fund	<u>66,467</u>
Total		<u>\$ 306,124</u>

Interfund transfers reported in the fund financial statements are comprised of the following:

- (1) Transfers of \$927,046 of debt service tax revenues collected in the General Fund for retirement of Unlimited Tax General Obligation Water and Sewer Improvement Bonds reported in the Water and Sewer Enterprise Fund
- (2) Transfer of Act 51 revenue-sharing payments from the Major Streets Fund to the Local Streets Fund, in the amount of \$154,000, as permitted by state law

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2008, the components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessment receivables	\$ 347,025	\$ -
Delinquent personal property tax receivables	-	58,968
Rehabilitation loan receivables	39,377	-
Total	<u>\$ 386,402</u>	<u>\$ 58,968</u>

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. A total of \$347,425 of special assessments is receivable in the future; the amount of receivables delinquent at June 30, 2008 is not significant.

The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the water and sewer revenue bonds listed below. Proceeds from the bonds provided financing for the construction of water and sewer lines. The bonds are payable solely from the net revenues of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$109,297. During the current year, net increase of the system was \$167,099 compared to the annual debt requirements of \$27,581.

The City has pledged all future special assessment collections of the General Fund to repay the special assessment bonds listed below. Proceeds from the bonds provided financing for the Kramer Homes construction. The remaining principal and interest to be paid on the bonds total \$368,965. During the current year, special assessment collections were \$106,818 compared to the annual debt requirements of \$100,838.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Long-term debt activity for governmental activities is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Unlimited Tax General Obligation Bonds:							
2004 Refunding Bonds:							
Amount of issue - \$1,490,000	2.00%-	\$40,764-					
Maturing through 2020	3.80%	\$127,915	\$ 1,305,826	\$ -	\$ 59,051	\$ 1,246,775	\$ 87,172
Special Assessment Bonds:							
2002 Kramer Homes Bonds:							
Amount of issue - \$800,000	3.45%-						
Maturing through 2012	4.35%	\$85,000	425,000	-	85,000	340,000	85,000
Installment purchase agreements:							
2005 Street Sweeper:							
Amount of issue - \$113,494							
Maturing through 2009	3.65%	\$22,788	45,131	-	22,789	22,342	22,343
2006 Backhoe and Wheel Loader:							
Amount of issue - \$133,982							
Maturing through 2011	4.50%	\$26,796	107,186	-	26,796	80,390	26,796
2006 Chevrolet C7500 Kodiak Cab:							
Amount of issue - \$126,694							
Maturing through 2012	4.25%	\$25,339	126,694	-	25,340	101,354	25,339
Accumulated compensated absences			96,560	-	11,614	84,946	20,000
Total governmental activities			<u>\$ 2,106,397</u>	<u>\$ -</u>	<u>\$ 230,590</u>	<u>\$ 1,875,807</u>	<u>\$ 266,650</u>
<b>Business-type Activities</b>							
Revenue Bonds:							
1991 Water and Sewer Bonds:							
Amount of issue - \$295,000	7.10%-	\$15,000-					
Maturing through 2011	7.25%	\$25,000	\$ 115,000	\$ -	\$ 20,000	\$ 95,000	\$ 20,000
Unlimited Tax General Obligation Bonds:							
1998B Water and Sewer Bonds:							
Amount of issue - \$3,600,000	3.95%-	\$100,000-					
Maturing through 2019	6.00%	\$375,000	3,050,000	-	150,000	2,900,000	150,000
2000 Water and Sewer Bonds:							
Amount of issue - \$3,000,000	5.20%-	\$75,000-					
Maturing through 2020	6.00%	\$325,000	100,000	-	100,000	-	-
2002 Water and Sewer Fund Bonds:							
Amount of issue - \$2,405,000	4.50%-	\$55,000-					
Maturing through 2020	6.50%	\$275,000	2,175,000	-	75,000	2,100,000	75,000
2002 Kramer Homes Water and Sewer Bonds:							
Amount of issue - \$800,000	3.45%-	\$75,000-					
Maturing through 2012	4.35%	\$100,000	455,000	-	85,000	370,000	85,000
2004 Refunding Bonds:							
Amount of issue - \$3,810,000	2.00%-	\$104,236-					
Maturing through 2020	3.80%	\$327,085	3,339,174	-	151,016	3,188,158	222,828
Less - Unamortized deferred charges			(360,332)	-	(30,667)	(329,665)	
Installment purchase agreements:							
2005 Sewer Vactor:							
Amount of issue - \$203,000							
Maturing through 2009	3.65%	\$40,511	81,466	-	40,933	40,533	40,533
2006 Bobcat Excavator:							
Amount of issue - \$51,646							
Maturing through 2011	4.25%	\$10,329	51,646	-	10,329	41,317	10,329
2007 SLC Meter							
Amount of issue - \$331,914							
Maturing through 2012	3.97%	\$66,383	-	331,914	66,383	265,531	66,383
2007 UIS Services							
Amount of issue - \$30,573							
Maturing through 2012	3.33%	\$6,115	-	30,573	6,115	24,458	6,115
Total business-type activities			<u>\$ 9,006,954</u>	<u>\$ 362,487</u>	<u>\$ 674,109</u>	<u>\$ 8,695,332</u>	<u>\$ 676,188</u>

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 246,650	\$ 59,652	\$ 306,302	\$ 676,188	\$ 345,968	\$ 1,022,156
2010	225,713	50,646	276,359	649,248	320,341	969,589
2011	228,527	41,875	270,402	736,437	293,711	1,030,148
2012	201,727	33,475	235,202	741,437	264,451	1,005,888
2013	119,510	27,893	147,403	705,490	237,051	942,541
2014-2018	584,896	82,778	667,674	4,120,104	743,847	4,863,951
2019-2020	183,838	6,926	190,764	1,396,094	57,454	1,453,548
Total	<u>\$ 1,790,861</u>	<u>\$ 303,245</u>	<u>\$ 2,094,106</u>	<u>\$ 9,024,997</u>	<u>\$ 2,262,824</u>	<u>\$ 11,287,821</u>

### Note 8 - Restricted Assets

In accordance with revenue bond provisions, cash and investments of the Water and Sewer Fund have been restricted for the funding of required reserves. The following is a summary of restricted assets at June 30, 2008:

Revenue bond requirements:

Operation and maintenance	\$ 175,907
Bond reserve	29,500
Debt service:	
Principal	8,333
Interest	<u>2,861</u>

Total requirements	<u>\$ 216,601</u>
--------------------	-------------------

Net assets at June 30, 2008 have been restricted for the amount of the required reserves.

### **Note 9 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Risk Pool for claims relating to property loss, torts, errors and omissions, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 10 - Defined Benefit Pension Plans**

#### **City of Center Line Police and Fire Retirement System**

##### **Plan Description**

The City of Center Line Police and Fire Retirement System (the "System") is the administrator of a single-employer defined benefit pension plan that covers public safety employees of the City. The System provides retirement, death, disability, and health benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of 38 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 24 current active employees. The plan does not issue a separate financial report.

##### **Contributions**

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System was established by City ordinances and state statute (P.A. 345) and requires a contribution of 9.25 percent of compensation from employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plans (Continued)

#### Annual Pension Cost

For the year ended June 30, 2008, the City's annual pension cost was \$364,782, which was equal to the actual and required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006 using the individual entry age actuarial funding method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent to 7.5 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is 20 years.

#### Reserves

At June 30, 2008, the plan's legally required reserves consist of the following:

Reserve for employees' contributions	\$ 1,781,189
Reserve for retiree benefit payments	5,061,296

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 364,782	\$ 351,503	\$ 329,399
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

#### Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 92.2 percent funded. The actuarial accrued liability for benefits was approximately \$13.6 million, resulting in an unfunded actuarial accrued liability of approximately \$1 million. The covered payroll (annual payroll for active employees covered by the plan) was approximately \$1.6 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 67.3 percent.



### **Note 10 - Defined Benefit Pension Plans (Continued)**

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

#### **Municipal Employees' Retirement System of Michigan**

##### **Plan Description**

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for municipalities throughout the state of Michigan. The system covers substantially all City employees except for those in the public safety department. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries.

The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

##### **Funding Policy**

The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's contractual bargaining units and requires a contribution from covered employees ranging from 3 percent to 5 percent of gross wages.

##### **Annual Pension Cost**

For the year ended June 30, 2008, the City's annual pension cost of \$ 153,501 was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 22 years.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plans (Continued)

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 153,501	\$ 124,783	\$ 149,688
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

#### Schedule of Funding Progress

	Actuarial Valuation as of December 31		
	2007	2006	2005
Actuarial value of assets	\$ 6,204,236	\$ 6,133,781	\$ 6,116,400
Actuarial accrued liability (AAL)			
(entry age)	\$ 8,070,843	\$ 7,769,079	\$ 7,857,552
Unfunded AAL (UAAL)	\$ 1,866,607	\$ 1,635,298	\$ 1,741,152
Funded ratio	76.9%	79.0%	77.8%
Covered payroll	\$ 1,067,864	\$ 1,108,723	\$ 1,116,000
UAAL as a percentage of covered payroll	174.8%	147.5%	156.0%

### Note 11 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 71 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$ 1,199,000.

The Governmental Accounting Standards Board has recently issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new standard will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 12 - Joint Ventures

The City is a member of the South Macomb Disposal Authority (the "Authority"), which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Eastpointe, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The City's equity interest in the Authority's operating reserve totaling \$44,295 is recorded within the governmental activities column of the statement of net assets. As of the date of this report, the Authority has reserves totaling approximately \$4,756,000 that have been designated for self-insurance activities; the participating communities' equity interest in the insurance reserve is not determinable. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan.

The City is also a member of the 37th District Court, State of Michigan, which provides services to the residents of the cities of Center Line and Warren. As of the most recent financial statements available, the District Court has no equity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the 37th District Court, State of Michigan can be obtained from the administrative offices at 8300 Common Road, Warren, Michigan.

### Note 13 - Reserved and Designated Fund Balance

Fund balance in the General Fund has been designated for the following purposes:

Subsequent year's budget	\$ 359,825
Accumulated compensated absences	84,946
Capital expenditures	<u>367,692</u>
Total	<u>\$ 812,463</u>

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2008

### Note 13 - Reserved and Designated Fund Balance (Continued)

The following is a reconciliation of the fund balance reserved for general obligation bond debt service:

Reserved fund balance - July 1, 2007	\$ 586,520
Special tax levy	1,019,047
Debt service payments (including transfers)	<u>(1,010,387)</u>
Reserved fund balance - June 30, 2008	<u>\$ 595,180</u>

### Note 14 - Contingency

The City has entered into an administrative consent order with the Michigan Department of Environmental Quality regarding sanitary sewer overflows that have occurred within the City. According to the provisions of the order, the City is required to continue a corrective action plan, including the rehabilitation of the sanitary sewer system to reduce inflow and infiltration, completion of the sanitary lift station, and outfall sewer improvements to better utilize and take advantage of the increased capacity from the City of Detroit.

The City has complied with all requirements and deadlines to date as set forth in the administrative consent order. The City estimates the total cost for the required improvements over the next five years to be approximately \$8,200,000. The City has applied for and was approved for low-interest funding through the State of Michigan's State Revolving Fund (SRF) to fund the cost of the required improvements.

### Note 15 - Subsequent Event

Subsequent to year end, the Police and Fire Retirement System's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

## **Required Supplemental Information**

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# City of Center Line, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 5,893,840	\$ 6,093,840	\$ 6,115,672	\$ 21,832
Intergovernmental revenue:				
Federal sources	125,000	130,000	126,770	(3,230)
State sources	1,020,900	1,027,900	1,023,764	(4,136)
Special assessments	86,760	86,760	86,756	(4)
Fees and charges	572,000	548,900	558,510	9,610
Licenses and permits	250,500	193,500	234,143	40,643
Interest income	80,600	148,600	155,107	6,507
Other	325,900	344,500	398,943	54,443
Total revenue	8,355,500	8,574,000	8,699,665	125,665
<b>Expenditures</b>				
General government:				
Legislative	17,985	22,985	22,017	968
District Court	417,785	452,785	457,816	(5,031)
City assessor	90,140	90,140	84,566	5,574
City manager - Clerk	558,520	632,216	596,246	35,970
City treasurer	275,010	315,010	295,416	19,594
Other general government	816,080	728,080	433,314	294,766
Public safety:				
Public safety department	3,664,160	3,764,160	3,628,469	135,691
Protective inspection	137,000	125,000	125,830	(830)
Public works - DPW and street maintenance	1,130,680	1,126,680	1,080,329	46,351
Recreation and culture:				
Recreation	421,090	396,090	398,744	(2,654)
Library	315,210	323,210	300,524	22,686
Debt service	1,110,735	281,235	286,863	(5,628)
Total expenditures	8,954,395	8,257,591	7,710,134	547,457
<b>Excess of Revenue Over (Under) Expenditures</b>	(598,895)	316,409	989,531	673,122
<b>Other Financing Uses</b> - Transfers out	-	(927,054)	(927,046)	8
<b>Net Change in Fund Balance</b>	(598,895)	(610,645)	62,485	673,130
<b>Fund Balance</b> - Beginning of year	1,566,179	1,566,179	1,566,179	-
<b>Fund Balance</b> - End of year	<u>\$ 967,284</u>	<u>\$ 955,534</u>	<u>\$ 1,628,664</u>	<u>\$ 673,130</u>

# City of Center Line, Michigan

## Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Funding Progress June 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio (Percent)	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/02	\$ 13,374,923	\$ 10,602,669	\$ (2,772,254)	126.1	\$ 1,501,053	\$ -
6/30/03	12,579,542	11,465,738	(1,113,804)	109.7	1,543,963	-
6/30/04	11,856,552	12,696,037	839,485	93.4	1,736,562	48.3
6/30/05	11,520,655	12,567,668	1,047,013	91.7	1,747,459	59.9
6/30/06	11,840,497	13,055,741	1,215,244	90.7	1,713,914	70.9
6/30/07	12,548,233	13,613,743	1,065,510	92.2	1,582,773	67.3

# City of Center Line, Michigan

## Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Employer Contributions June 30, 2008

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2002	\$ -	-
2003	-	-
2004	5,516	100.0
2005	153,524	100.0
2006	329,399	100.0
2007	351,503	100.0
2008	364,782	100.0

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of June 30, 2007, the date of the latest actuarial valuation, follows:

Actuarial cost method	- Individual entry age normal
Amortization method	- Level of percent of payroll, open
Remaining amortization period	- 20 years
Asset valuation method	- 4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	- 7.50 percent
Projected salary increases*	- 4.50 percent to 7.50 percent
Cost of living adjustments	- None
*Includes inflation at	- 4.50 percent



## **Other Supplemental Information**

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# City of Center Line, Michigan

		Special Revenue Funds			
		Major Streets	Local Streets	Rehabilitation	Total Special Revenue Funds
<b>Assets</b>					
Cash and investments		\$ 67,536	\$ 154,000	\$ 200,699	\$ 422,235
Receivables - Net:					
Rehabilitation loans		-	-	39,377	39,377
State of Michigan		25,670	10,296	-	35,966
Total assets		<u><b>\$ 93,206</b></u>	<u><b>\$ 164,296</b></u>	<u><b>\$ 240,076</b></u>	<u><b>\$ 497,578</b></u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable		\$ 17,645	\$ 19	\$ 8,122	\$ 25,786
Accrued wages		2,536	605	-	3,141
Due to other funds		-	66,467	-	66,467
Deferred revenue		-	-	39,377	39,377
Total liabilities		20,181	67,091	47,499	134,771
<b>Fund Balances</b> - Unreserved - Designated for streets and capital projects		73,025	97,205	192,577	362,807
Total liabilities and fund balances		<u><b>\$ 93,206</b></u>	<u><b>\$ 164,296</b></u>	<u><b>\$ 240,076</b></u>	<u><b>\$ 497,578</b></u>

**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

Capital Projects Funds				Total
Capital Equipment	Construction	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ 667	\$ 3,596	\$ 41,036	\$ 45,299	\$ 467,534
-	-	-	-	39,377
-	-	-	-	35,966
<u>\$ 667</u>	<u>\$ 3,596</u>	<u>\$ 41,036</u>	<u>\$ 45,299</u>	<u>\$ 542,877</u>
\$ -	\$ -	\$ -	\$ -	\$ 25,786
-	-	-	-	3,141
-	-	-	-	66,467
-	-	-	-	39,377
-	-	-	-	134,771
667	3,596	41,036	45,299	408,106
<u>\$ 667</u>	<u>\$ 3,596</u>	<u>\$ 41,036</u>	<u>\$ 45,299</u>	<u>\$ 542,877</u>

# City of Center Line, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Rehabilitation	Total Special Revenue Funds
<b>Revenue</b>				
State sources	\$ 312,122	\$ 125,390	\$ -	\$ 437,512
Interest income	<u>2,537</u>	<u>36</u>	<u>7,616</u>	<u>10,189</u>
Total revenue	314,659	125,426	7,616	447,701
<b>Expenditures</b>				
General government - Administration	34,529	35,732	-	70,261
Public works - Street maintenance	179,304	241,998	-	421,302
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>213,833</u>	<u>277,730</u>	<u>-</u>	<u>491,563</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	100,826	(152,304)	7,616	(43,862)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	154,000	-	154,000
Transfers out	<u>(154,000)</u>	<u>-</u>	<u>-</u>	<u>(154,000)</u>
Total other financing sources (uses)	<u>(154,000)</u>	<u>154,000</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(53,174)	1,696	7,616	(43,862)
<b>Fund Balances - Beginning of year</b>	<u>126,199</u>	<u>95,509</u>	<u>184,961</u>	<u>406,669</u>
<b>Fund Balances - End of year</b>	<u><b>\$ 73,025</b></u>	<u><b>\$ 97,205</b></u>	<u><b>\$ 192,577</b></u>	<u><b>\$ 362,807</b></u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2008**

Capital Projects Funds				Total
Capital Equipment	Construction	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 437,512
-	-	478	478	10,667
-	-	478	478	448,179
-	-	-	-	70,261
-	-	-	-	421,302
-	-	92	92	92
-	-	92	92	491,655
-	-	386	386	(43,476)
-	-	-	-	154,000
-	-	-	-	(154,000)
-	-	-	-	-
-	-	386	386	(43,476)
667	3,596	40,650	44,913	451,582
<u>\$ 667</u>	<u>\$ 3,596</u>	<u>\$ 41,036</u>	<u>\$ 45,299</u>	<u>\$ 408,106</u>

# City of Center Line, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds June 30, 2008

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
<b>Assets</b>				
Cash	\$ 408,781	\$ -	\$ -	\$ 408,781
Investments:				
Common and preferred stocks	8,955,233	-	-	8,955,233
Corporate bonds and notes	977,157	-	-	977,157
U.S. Treasury securities	183,833	-	-	183,833
Federal agency securities	2,086,598	-	-	2,086,598
Interlocal agreement investment pools	-	35,211	17,556	52,767
Accrued interest receivable	31,421	-	-	31,421
<b>Total assets</b>	<b>12,643,023</b>	<b>35,211</b>	<b>17,556</b>	<b>12,695,790</b>
<b>Net Assets</b>				
Held in trust for pension benefits	12,643,023	-	-	12,643,023
Held in trust for retiree health care benefits	-	35,211	17,556	52,767
<b>Total net assets</b>	<b>\$ 12,643,023</b>	<b>\$ 35,211</b>	<b>\$ 17,556</b>	<b>\$ 12,695,790</b>

# City of Center Line, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2008

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
<b>Additions</b>				
Investment income:				
Interest and dividends	\$ 314,572	\$ 1,444	\$ 711	\$ 316,727
Net realized and unrealized loss on investments	(502,700)	-	-	(502,700)
Less investment expenses	(119,640)	-	-	(119,640)
Net investment income	(307,768)	1,444	711	(305,613)
Contributions:				
Employer	364,782	-	-	364,782
Employees	117,193	-	-	117,193
Total contributions	481,975	-	-	481,975
Total additions	174,207	1,444	711	176,362
<b>Deductions</b>				
Benefit payments	779,598	-	-	779,598
Administrative expenses	196	-	-	196
Total deductions	779,794	-	-	779,794
<b>Net Increase (Decrease)</b>	(605,587)	1,444	711	(603,432)
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>				
Beginning of year	13,248,610	33,767	16,845	13,299,222
End of year	<u>\$ 12,643,023</u>	<u>\$ 35,211</u>	<u>\$ 17,556</u>	<u>\$ 12,695,790</u>

# **City of Center Line, Michigan**

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**Report to the City Council**

**June 30, 2008**





**Plante & Moran, PLLC**  
Suite 300  
19176 Hall Road  
Clinton Township, MI 48038  
Tel: 586.416.4900  
Fax: 586.416.4901  
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To the Honorable Mayor and  
Members of the City Council  
City of Center Line, Michigan

We have recently completed our audit of the basic financial statements of the City of Center Line, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following reports on internal control and the results of the audit, which are required by generally accepted auditing standards, along with a summary of our comments and recommendations.

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<b>Report on Internal Control</b>	2-4
<b>Report on Results of the Audit</b>	5-8
<b>Other Recommendations</b>	9-11

We appreciate the opportunity to be of service to the City of Center Line, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to contact us at your convenience.

*Plante & Moran, PLLC*

November 19, 2008



Plante & Moran, PLLC  
Suite 300  
19176 Hall Road  
Clinton Township, MI 48038  
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## Report on Internal Control

November 19, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Center Line, Michigan

Dear Mayor and Members  
of the City Council:

In planning and performing our audit of the financial statements of the City of Center Line, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

To the Honorable Mayor and  
Members of the City Council  
City of Center Line, Michigan

November 19, 2008

We consider the following deficiency to be a significant deficiency in internal control:

### **Accounts Receivable Reconciliation**

During the course of our audit testing, we noted that the accounts receivable subsidiary ledger for the Water and Sewer Fund was not reconciled to the trial balance, and has not been reconciled for the past two fiscal years. The reconciliation of the subsidiary ledger to the trial balance is an important process that improves the likelihood that errors will be identified and corrected in a timely manner. We recommend that the City implement procedures to ensure that subsidiary ledgers are reconciled to the trial balance on a periodic basis, including resolution of discrepancies identified during the process, and that the reconciliations are reviewed and approved by someone other than the preparer.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We believe that the following deficiencies constitute material weaknesses in internal control:

### **Year-end Accounts Payable Accruals**

During the course of our testing, we identified several amounts that were improperly excluded from accounts payable as of June 30, 2008. We proposed entries to record accounts payable items and management posted the correcting entries. We suggest that a thorough review of amounts paid after year end be performed to identify goods and services received prior to June 30 that should be included in the year-end accounts payable accrual.

### **Segregation of Duties**

The segregation of key responsibilities in the accounting and finance function is an important element of internal control as it provides the “checks and balances” of independent review that are critical to successful internal control structures. During our audit, we noted that there is a lack of segregation of duties in the treasurer’s department. For example, the treasurer posts journal entries, prepares bank reconciliations, and has the ability to collect and disburse cash, including initiate wire transfers. There are similar incompatible duties related to the cash disbursement and payroll functions.

We continue to recommend that the City review the division of responsibilities in the accounting and finance functions to make changes, where appropriate, to improve internal controls. This process will be necessarily limited by the size of the City’s accounting and finance staff; however, there may still be opportunities for improvements.

To the Honorable Mayor and  
Members of the City Council  
City of Center Line, Michigan

November 19, 2008

This communication is intended solely for the information and use of the City Council, management, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "David V. Grubb". The signature is written in a cursive style with a large, stylized 'D' and a long, sweeping underline.

David V. Grubb



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## **Report on Results of the Audit**

November 19, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Center Line, Michigan

Dear Mayor and Members  
of the City Council:

We have audited the financial statements of the City of Center Line, Michigan for the year ended June 30, 2008 and have issued our report thereon dated November 19, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated September 16, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously discussed with Mayor Zielinski on September 16, 2008 and documented in our letter to the City Council dated September 26, 2008.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Center Line, Michigan are described in Note 1 to the financial statements. No significant new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements relates to the contingent liabilities associated with the administrative consent order with the Michigan Department of Environmental Quality, as described in Note 14 to the financial statements.

Management's estimate of the need to recognize a contingent liability is based on cost estimates provided by the City's engineer along with an assessment of whether the City has a current obligation to fund the necessary improvement. We evaluated the key factors and assumptions used to develop the estimated costs of improvement and the status of the City's obligation in determining that it is reasonable that no liabilities are required to be recognized in the City's June 30, 2008 financial statements.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

To the Honorable Mayor and  
Members of the City Council  
City of Center Line, Michigan

November 19, 2008

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole, except for entries to record year-end accounts payable accruals.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated November 19, 2008.

### ***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

To the Honorable Mayor and  
Members of the City Council  
City of Center Line, Michigan

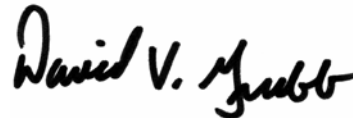
November 19, 2008

As indicated in our letter to the City Council regarding the planned scope and timing of the audit, we identified the timely preparation of bank reconciliations as a significant audit risk factor. In response to this risk, we evaluated bank reconciliations performed throughout the year and subsequent to June 30, 2008. The results of our procedures indicate that bank reconciliations are being performed on a timely basis; however, we noted that the reconciliations are not being reviewed. We recommend that the City implement procedures to ensure that bank reconciliations be reviewed by someone other than the preparer.

This communication is intended solely for the information and use of the City Council, management, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "David V. Grubb". The signature is written in a cursive, flowing style.

David V. Grubb



## **Other Recommendations**

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### **Overview of the City's Financial Condition**

During the year ended June 30, 2008, General Fund revenues exceeded expenditures by approximately \$62,000, taking into account transfers to other funds. Fund balance at June 30, 2008 amounted to approximately \$1,628,000. Of this amount, \$221,000 is reserved for prepaid expenses, \$595,000 is reserved for general obligation debt service, and \$812,000 is designated for the 2008-2009 budget, capital expenditures, and other purposes.

The City continues to be faced with many budgetary challenges, including limitations on the growth of state revenue sharing, currently unfunded postemployment benefit obligations, limitations on personal property tax collections, future infrastructure improvements, and necessary improvements to and replacement of facilities and capital equipment.

Certain of these challenges are a direct result of the difficult economic period that has been experienced in the state of Michigan while others are characteristics of the City and its physical framework. It is important that the City maintain an adequate level of working capital and fund balance reserves to meet financial challenges without affecting the level of services provided to citizens or the City's ability to fund future obligations.

### **Water and Sewer Fund**

The Water and Sewer Fund experienced an operating loss of approximately \$717,000 in 2008, and as of June 30, 2008, the Water and Sewer Fund had a deficit balance in unrestricted net assets totaling approximately \$194,000. During 2008, total water sales and sewage disposal revenue was approximately \$1,817,000 and total cost of water supply and sewage disposal was approximately \$1,125,000, resulting in approximately \$692,000 available to cover other operating expenses. These other operating expenses totaled approximately \$1,409,000 and include personnel costs, repairs and maintenance, utilities, and other expenses. The 2008 revenue amounts do not include the rate increases that became effective July 1, 2008.

Under state law, a deficit in the unrestricted net assets of an Enterprise Fund such as the Water and Sewer Fund constitutes a fund deficit. Accordingly, the City will be required to develop a plan to eliminate the fund deficit at June 30, 2008 and to ensure there will be sufficient equity to fund operations in the future.

### **Distribution of Tax Collections to Other Taxing Authorities**

State law requires that the City distribute taxes collected on behalf of other taxing authorities with 10 days of the 1<sup>st</sup> and 15<sup>th</sup> of each month. During the audit, it was brought to our attention that the City was delinquent in distributing property taxes to the other taxing authorities at certain points during the year. We recommend that the City implement processes to ensure that payments are made in a timely manner in compliance with state law.

# **City of Center Line, Michigan**

## **Other Recommendations (Continued)**

### **Funding of Postemployment Benefits**

As you are aware, the City provides postemployment benefits to retirees that are funded currently from the General Fund and the Police and Fire Retirement System. For the year ended June 30, 2008, the cost of these benefits amounted to approximately \$1,199,000, representing an increase of approximately 19 percent over the 2007 amount. The City has experienced postemployment healthcare cost increases of 10 percent to 20 percent over the past several years and this annual cost is expected to grow as the average age of the City's workforce and the number of former employees eligible for postemployment benefits increases.

The City has established the Police and Fire Retiree Health Care Fund and the General Retiree Health Care Fund to begin to set aside resources to fund these obligations. These funds were established in accordance with the Public Employee Health Act of 1999 (P.A. 149 of 1999), which allows communities to invest assets set aside for postemployment benefit obligations in the same investment vehicles as pension funds (e.g., stocks, bonds, etc.). These investments provide a better means of achieving rates of return necessary to fund these long-term liabilities. As a reminder, for funds established in accordance with P.A. 149 of 1999, withdrawals from the fund are restricted solely for the payment of healthcare benefits and administrative expenses and an actuarial study is required every five years if the fund is not established on an actuarial basis.

Current accounting pronouncements do not require the accounting for postemployment benefit obligations on an actuarial basis. Recent accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), however, will change the accounting for postemployment benefit obligations to a methodology similar to that used for pension benefits. GASB Statements No. 43 and 45 will require that postemployment benefit liabilities and expenses be measured on an actuarial basis. The new accounting standards will require disclosure of liabilities on an actuarial basis in the City's June 30, 2009 financial report and the measurement of liabilities and expenses on an actuarial basis with the fiscal year beginning July 1, 2009. It is important to remember that it may take upwards of three to six months for an actuarial valuation to be performed and additional lead time will be needed to include the expected contributions in the budget. Therefore, we recommend that the City begin the process of obtaining an actuarial valuation for the postemployment healthcare benefit plans.